

PHILIP MORRIS MANAGEMENT CORP. INTER-OFFICE CORRESPONDENCE

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TO: Murray H. Bring

DATE: March 26, 1996

FROM: Denise F. Keane

SUBJECT: *PM USA Legal Department Monthly Report - March 1996*

Here are the more significant matters which our lawyers have been working on in March. Please let me know if you would like further details.

Corporate Affairs

We prepared contracts and reviewed speeches, research reports, media releases, internal and external publications, and corporate communications and strategies. We also provided advice and comment on various press releases, scripts, VNR's and talking points concerning FDA and other PM USA program activities. We participated in the weekly Legislative Review Task Force conference call with certain PM USA staff and Regional Directors. We are assisting PM USA staff on mobilization issues and activity.

Information Services

We attended meetings of the Business Integration team, which have included the review of changes in business rules arising from SAP integration.

We are drafting and negotiating a number of contracts, including those with (1) AT&T for video conferencing equipment and services, (2) MSA for the development of direct mail response models and related services and (3) TDI for communication services. We also are developing a master agreement with MSA.

Marketing

We met with representatives of Rader Railcar and Rader Lightning Services to review and compare Marlboro Unlimited compliance efforts to date. We interviewed firms to act as local counsel in areas where the train will travel to assist with compliance issues and legislative or litigation matters that may arise.

In consultation with our patent lawyers, we reviewed and responded to a second letter alleging that a Marlboro incentive item infringes a utility patent.

We continued participating in a docket committee of the FDA task force to organize and analyze comments submitted to the FDA concerning proposed regulations.

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Operations

In addition to our usual work, we spent considerable time assisting the Litigation group with the document collection in Richmond, Louisville and Cabarrus. This month's main focus was on developing a framework to handle PM trade secret and confidential documents.

We continue to analyze the effect of a recent FDA rule which added nicotine to the list of chemicals subject to Toxic Release Inventory reporting.

R&D

Here too we devoted significant resources to assisting the Litigation group with local issues relating to various litigations, including Castano, Humphrey and Tijerina, and with assisting in the document collection.

We attended meetings with outside counsel and Project Tomorrow principals to discuss implementation issues.

U.S. patents were granted covering (1) a novel method of attaching electrical connections to semiconductor heater elements and (2) a method of manufacturing the tobacco mat.

Sales

We made legal presentations on document creation to the Seattle District Meeting and on antitrust issues to the Experienced TSM Learning Center and the Business Planning Department.

We advised Trade Marketing regarding changes to Wholesale Masters that will become effective April 1. As of that date, data on wholesalers' outbound shipments that do not track the product down to the retail level will be used to calculate PM's share of the wholesalers' sales, but those outbound shipments will only earn 60% of the amount the wholesalers' would have earned under the program had retail data been provided. This modification may affect Wholesale Masters earnings of direct accounts who sell to subjobbers, vending machine operators, warehouse clubs, etc.

We prepared a field communication clarifying retail execution of the "exclusivity" performance level of Retail Masters.

Miscellaneous

As usual, our lawyers provided counsel to and supported many ongoing projects within their client areas, including such work as contract drafting, negotiating, research, attending client meetings, and general counseling on a wide range of issues.

All our lawyers continue to devote significant time to assisting the Litigation group in the document collection effort within PM USA and resolving issues arising therefrom. In addition, we worked with numerous client groups and outside counsel in collecting and reviewing documents.

We have devoted significant time and efforts in addressing legal/regulatory and product related issues.

We are assisting Finance in reviewing processes and ensuring compliance with business practice and legal requirements.

We continue to support a variety of efforts including activities with the Special Situation taskforce and the Recall Learnings taskforce as part of our assessment and enhancement of practices in this area.

In the Cappelli matters, we continued to work with outside counsel in responding to settlement offers from C.D. Baird, Southern Container and Republic Container in the vendor actions. We also developed a potential global settlement strategy and presented it to Finance management. In the insurance action, we began work with outside counsel in responding to motions to dismiss on forum non conveniens and "entire controversy" grounds in the New Jersey action and to discovery requests in the New York and New Jersey actions. We assisted outside counsel in reviewing and organizing documents in preparation for production in the vendor actions and insurance actions.